

FALL RIVER WATER USERS DISTRICT  
FINANCIAL REPORT  
DECEMBER 31, 2011 and 2010

## FALL RIVER WATER USERS DISTRICT

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*DeSmet and Biggs, LLP*

Certified Public Accountants

Dennis O. DeSmet, CPA

Lonnie J. Hosman, CPA

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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Fall River Water Users District  
Oral, South Dakota

We have audited the financial statements of Fall River Water Users District (the District), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated September 11, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2011-1 and 2011-2 to be material weaknesses.

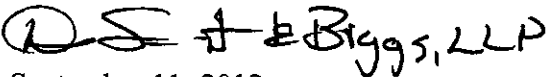
REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under Government Auditing Standards.

Fall River Water Users District's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Fall River Water Users District and the South Dakota Legislature and is not intended to be and should not be used by anyone other than these specific parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Handwritten signature of DS & E Biggs, LLP

September 11, 2012



*DeSmet and Biggs, LLP*  
Certified Public Accountants

Dennis O. DeSmet, CPA  
Teresa A. Biggs, CPA

Lonnie J. Hosman, CPA  
Megan L. Kinder, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Fall River Water Users District  
Oral, South Dakota

COMPLIANCE

We have audited the Fall River Water Users District, Oral, South Dakota compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Fall River Water Users District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fall River Water Users District's management. Our responsibility is to express an opinion on Fall River Water Users District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fall River Water Users District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fall River Water Users District's compliance with those requirements.

In our opinion, Fall River Water Users District, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2011-01 and 2011-02.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

INTERNAL CONTROL OVER COMPLIANCE

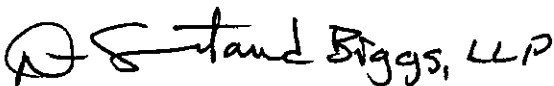
The management of Fall River Water Users District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fall River Water Users District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fall River Water Users District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-03 to be a material weakness.

The Fall River Water Users District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the Fall River Water Users District's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Fall River Water Users District, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by OMB Circular A-133 §.320 and South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

 R. S. Stand Biggs, LLP

September 11, 2012

# FALL RIVER WATER USERS DISTRICT

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

### Prior Financial Statement Findings

2010-01

A reportable condition and material weakness was reported for a lack of segregation of duties in the District's accounting systems.

#### Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of the Fall River Water Users District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist and is restated under the current audit findings as finding number 2011-01.

2010-02

A reportable condition and material weakness for lack of controls over the period-end reporting process and preparation of financial statements in accordance with generally accepted accounting principles.

#### Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. The District has determined that it is not cost beneficial to employ additional personnel just to prepare the financial statements in accordance with generally accepted principles and will continue to outsource this function. The District will continue to review all proposed adjustments and review, approve, and accept responsibility for the financial statements. However, this lack of controls over the financial statement preparation continues to exist and is restated under the current audit findings as finding number 2011-02.

FALL RIVER WATER USERS DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS  
AND QUESTIONED COSTS

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weaknesses identified? ☒ yes ☐ no
- Significant deficiency identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? ☒ yes ☐ no
- Significant deficiency identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported  
in accordance with section 510 (a) of Circular A-133

☒ yes ☐ no

Identification of Major Programs:

<u>Name of Federal Program or Clusters</u>	<u>CFDA Numbers</u>
Water and Waste Disposal Systems for Rural Communities	10.760

Dollar threshold used to distinguish between type A  
and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no



FALL RIVER WATER USERS DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS  
AND QUESTIONED COSTS (CONTINUED)

Section II - Current Financial Statement Findings

Internal Control over Revenues, Expenditures, and Payroll

Finding Number 2011-01

A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenues, expenditures and payroll systems.

Analysis:

For the revenues, expenditures and payroll functions, there is a lack of segregation of duties because one or two persons perform a major portion of the procedures with few checks and balances. This may affect the completeness and existence of transactions. This could lead to miscoding of transactions and/or transactions not being recorded.

Recommendation

We recommend the Fall River Water Users District officials be cognizant of this lack of segregation of duties for revenues, expenditures and payroll, and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of Fall River Water Users District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures and payroll. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.

Finding Number 2011-02

A material weakness in controls to provide oversight of the financial reporting process was disclosed by our audit. The District's management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). We noted the absence of appropriate internal controls in the following areas:

- The District does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are presented in accordance with generally accepted accounting principles. As such, management requested us to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in entities of this size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs. Management reviewed the adjustments and also reviewed, approved, and accepted responsibility for those financial statements prior to their issuance. The adjustments were to reclassify capital expenditures to the proper accounts and adjust year-end account balances to the correct amount. Also it is the District's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

FALL RIVER WATER USERS DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS  
AND QUESTIONED COSTS (CONTINUED)

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Corrective Action Plan:

The District Board President is the contact person responsible for the correction action plan for these comments. The District has determined that it would require additional staff to have the financial statements prepared in accordance with generally accepted accounting principles and will continue to outsource this function. The District will review all adjustments and also review, approve, and accept responsibility for the financial statements prior to their issuance and accepts the degree of risk associated with this condition.

Section III - Current Audit Findings and Questioned Costs: Water and Waste Disposal Systems for Rural Communities CFDA 10.760

Activities Allowed or Unallowed and Special Tests and Provisions:

Finding Number 2011-03

A material weakness was disclosed by our audit of the internal control over major federal programs, as listed in Section I - Summary of Auditor's Results, Identification of Major Programs, for lack of segregation of duties for the revenues, expenditure and payroll functions as discussed in Section II in audit finding 2011-01.

Analysis:

For the revenues, expenditures and payroll functions, there is a lack of segregation of duties because one or two persons perform a major portion of the procedures with few checks and balances. This may affect the completeness and existence of transactions. This could lead to miscoding of transactions and/or transactions not being recorded.

Recommendation

We recommend the Fall River Water Users District officials be cognizant of this lack of segregation of duties for revenues, expenditures and payroll, and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of Fall River Water Users District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures and payroll. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Fall River Water Users District  
Hot Springs, South Dakota

We have audited the accompanying financial statements of the Fall River Water Users District, South Dakota, as of and for the years ended December 31, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the Fall River Water Users District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

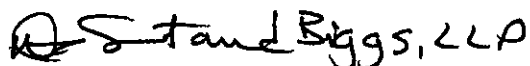
In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Fall River Water Users District, South Dakota, as of December 31, 2011 and 2010 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 11, 2012, on our consideration of the Fall River Water Users District's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (continued)

Accounting principles generally accepted in the United States of America require that that management's discussion and analysis on pages 11 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, the management discussion and analysis as presented does not include all the information as required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Fall River Water Users District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

R. Stand Bggs, LLC

September 11, 2012

# FALL RIVER WATER USERS DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Fall River Water Users District's financial activities provides an overview of the financial activity for the year ending December 31, 2011. This discussion and analysis follows the order of the financial statements as listed in the table of contents and should be read in conjunction with the financial statements and notes.

The Balance Sheets show the asset and liability accounts of the district and provide a summary of net worth of Fall River Water Users District. Total current assets of the District increased from \$464,266 to \$501,465. The increase of \$37,199 was mainly from an increase in Restricted for Debt Service funds, as required by Rural Development, and accounts receivable. Fall River Water Users District completed the North Expansion, North Well and 09 System Improvements projects in the year 2011 as evident in the Balance Sheets which show that capital assets increased \$511,365 from \$10,788,251 in 2010 to \$11,299,616 in 2011. Year ending total assets were \$11,801,081 as compared to the previous year, which ended with a balance of \$11,252,517.

Total current liabilities showed an increase of \$41,443 because of the construction financing and increase in long-term liabilities. The main increases came from current maturities of long-term liabilities, which showed an increase of \$55,256 from 2010. Total long-term liabilities increased by \$165,833 to \$3,118,527 over the previous year balance of \$2,952,694. Total liabilities of the District at year end were \$3,305,200.

Total net assets of Fall River Water Users District ended the year at \$8,495,881 over the previous year of \$8,154,593 resulting in an increase of \$341,288.

### Condensed Balance Sheet

	2011	2010	Increase (Decrease)
<b>Assets</b>			
Total Current Assets	\$ 501,465	\$ 464,266	\$ 37,199
Net Capital Assets	<u>11,299,616</u>	<u>10,788,251</u>	<u>511,365</u>
Total Assets	<u>11,801,081</u>	<u>11,252,517</u>	<u>548,564</u>
<b>Liabilities</b>			
Total Current Liabilities	\$ 186,673	\$ 145,230	\$ 41,443
Long-Term Liabilities	<u>3,118,527</u>	<u>2,952,694</u>	<u>165,833</u>
Total Liabilities	<u>3,305,200</u>	<u>3,097,924</u>	<u>207,276</u>
<b>Total Net Assets</b>	<u>\$ 8,495,881</u>	<u>\$ 8,154,593</u>	<u>\$ 341,288</u>

# FALL RIVER WATER USERS DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The Statements of Cash Flows show how income from operating and financing activities are used throughout the year. Cash provided by operating activities totaled \$85,648 after expenses of \$498,667 were paid from an income of \$584,315. Cash flows from capital and related financing activities, which include borrowing, construction activity, interest, principal, and capital contributions, show a net decrease of \$65,655. Cash provided by investing activities was \$368. The December 31, 2011 year-end cash and cash equivalents balance equals \$306,446, an increase of \$20,361 from the prior year-end of \$286,085.

### Condensed Statement of Cash Flows

	2011	2010	Increase (Decrease)
Cash Provided by			
Operating Activities	\$ 85,648	\$ 31,061	\$ 54,587
Cash Used in Capital and			
Related Financing Activity	(65,655)	(13,510)	(52,145)
Cash Provided by			
Investing Activities	<u>368</u>	<u>59,490</u>	<u>(59,122)</u>
Net Increase in Cash and			
Cash Equivalents	<u>20,361</u>	<u>77,041</u>	<u>(56,680)</u>
Cash and Cash Equivalents			
Balance - Beginning	<u>286,085</u>	<u>209,044</u>	
Cash and Cash Equivalents			
Balance - End of year	<u>\$ 306,446</u>	<u>\$ 286,085</u>	

This financial analysis was prepared to give our customers, residents, investors, and creditors a general overview of the district's finances and demonstrate the accountability of the finances it manages. If you have any questions or need further information please contact Fall River Water Users District at PO Box 321, Oral SD 57766 (605) 424-7648.

## BALANCE SHEETS

## FALL RIVER WATER USERS DISTRICT

## BALANCE SHEETS

## ASSETS

	December 31,	
	2011	2010
Current Assets		
Cash and cash equivalents		
Restricted for debt service	\$ 92,511	\$ 70,373
Water service account	143,654	145,839
Other	<u>70,281</u>	<u>69,873</u>
Total cash and cash equivalents	306,446	286,085
Certificates of deposit	119,607	117,969
Inventory	9,785	1,893
Accounts receivable, less allowance for doubtful accounts	<u>65,627</u>	<u>58,319</u>
Total current assets	<u>501,465</u>	<u>464,266</u>
Capital Assets		
Land	123,690	123,690
Buildings/leasehold improvements	108,258	108,258
Equipment and vehicles	97,958	40,170
Water delivery system	10,718,743	6,765,647
Construction in progress	<u>1,721,827</u>	<u>4,986,605</u>
Total fixed assets	12,770,476	12,024,370
Less accumulated depreciation	<u>(1,470,860)</u>	<u>(1,236,119)</u>
Net capital assets	<u>11,299,616</u>	<u>10,788,251</u>
Total Assets	<u>\$11,801,081</u>	<u>\$11,252,517</u>

The accompanying notes are an integral part of  
these financial statements.



## LIABILITIES AND NET ASSETS

	December 31,	
	2011	2010
<b>Current Liabilities</b>		
Accounts payable	\$ 24,006	\$ 41,754
Meter deposits payable	16,125	16,125
Current maturities of long-term liabilities	123,269	68,013
Hook-up fees refundable	12,479	-
Other current liabilities	<u>10,794</u>	<u>19,338</u>
Total current liabilities	<u>186,673</u>	<u>145,230</u>
<b>Long-Term Liabilities</b>		
State revolving fund loan, less current maturities	753,733	782,446
Other long-term loans, less current maturities	<u>2,364,794</u>	<u>2,170,248</u>
Total long-term liabilities	<u>3,118,527</u>	<u>2,952,694</u>
Total liabilities	<u>3,305,200</u>	<u>3,097,924</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	8,057,820	7,767,544
Restricted for debt service	92,511	70,373
Unrestricted	<u>345,550</u>	<u>316,676</u>
Total net assets	<u>8,495,881</u>	<u>8,154,593</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$11,801,081</u></u>	<u><u>\$11,252,517</u></u>

# FALL RIVER WATER USERS DISTRICT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Years Ended December 31,	
	2011	2010
Operating Revenues:		
Water sales	\$ 545,912	\$ 467,157
Other	<u>33,232</u>	<u>29,780</u>
Total operating revenue	<u>579,144</u>	<u>496,937</u>
Operating Expenses:		
Costs of sales and service	191,654	179,666
Administrative	267,217	302,489
Depreciation	<u>234,741</u>	<u>155,568</u>
Total operating expenses	<u>693,612</u>	<u>637,723</u>
Operating income (loss)	<u>(114,468)</u>	<u>(140,786)</u>
Nonoperating Revenues (Expenses):		
Interest income	2,006	5,087
Interest expense	<u>(121,467)</u>	<u>(33,508)</u>
Total nonoperating revenues (expenses)	<u>(119,461)</u>	<u>(28,421)</u>
Change in net assets before capital contributions	(233,929)	(169,207)
Capital contributions	<u>575,217</u>	<u>2,310,269</u>
Change in net assets	341,288	2,141,062
Total Net Assets - Beginning	<u>8,154,593</u>	<u>6,013,531</u>
Total Net Assets - Ending	<u>\$ 8,495,881</u>	<u>\$ 8,154,593</u>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

For the Years Ended  
December 31,  
2011                      2010

Reconciliation of Operating Income (Loss) to Net

Cash Provided by Operating Activities:

Operating income (loss)	\$ (114,468)	\$ (140,786)
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Adjustments to reconcile operating income (loss) to  
net cash provided by operations:

Depreciation	234,741	155,568
(Increase) decrease in accounts receivable	(7,308)	(21,984)
(Increase ) decrease in inventory	(7,892)	11,894
Increase (decrease) in accounts payable	(17,748)	16,577
Increase (decrease) in other current liabilities	<u>(1,677)</u>	<u>9,792</u>

Cash Provided by Operating Activities	<u>\$ 85,648</u>	<u>\$ 31,061</u>
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Non-Cash Transactions:

Capital contributions of \$0 and \$36,995  
were recognized in 2011 and 2010 respectively.

# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

The Fall River Water Users District (the District), organized under SDCL 46A-9, was formed by action of the Board of South Dakota Department of Natural Resources on July 1, 1992. The purpose of the formation of the District is to provide quality potable water to rural homes, the town of Oelrichs, the Angostura State Recreation Area and livestock within the District.

#### Fund Accounting

The accounts of the District are organized into funds. The District is considered to be a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position and cash flows. All assets and liabilities associated with proprietary fund activities are included on its balance sheet. Proprietary fund equity is classified as net assets and is displayed in the following three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applied all Financial Accounting Standard Board (FASB) statements and interpretations issued after November 30, 1989, except those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

#### Deposits and Investments

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

The District's policy is to report deposits at cost plus interest and credit all income from the deposit to the fund making the investment.

# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Deposits and Investments (continued)

The actual depository bank balances at December 31 were as follows:

	2011	2010
Insured (FDIC/NCUA)	\$ 251,729	\$ 252,005
Uninsured, collateral jointly held by District's agent in the name of the state and the pledging financial institution.	56,648	155,156
Total Deposits	<u>\$ 308,377</u>	<u>\$ 407,161</u>

The District's book balance of bank deposits was \$306,345 at December 31, 2011.

Investments - In general, SDCL 4-5-6 permits water district funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. The District had no investments at December 31, 2011 or 2010.

Deposits are reported at cost, plus interest, if the account is the add-on type. All deposits are made in qualified depositories as defined by SDCL 4-6A-1.

#### Cash and Cash Equivalents

For purpose of the statements of cash flows, the District considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Accounting Basis

Basis of accounting refers to when the revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District prepares its financial statements on the accrual basis whereby revenues are recognized when earned and expenditures are recognized when incurred.

# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Refundable Amounts

The service agreement provides that hookup fees and meter deposits collected, net of expenses, are refundable if service is not or cannot be provided to the prospective user. These funds are held in savings with a portion of the service fund also designated for refundable payments.

	<u>2011</u>	<u>2010</u>
Savings	\$ 16,125	\$ 16,125
Water Service Fund	3,000	-
East Oral Study Account	<u>9,479</u>	<u>-</u>
	<u>\$ 28,604</u>	<u>\$ 16,125</u>

#### Accounts Receivable

Accounts receivable are stated at face value net of allowance for doubtful accounts and consist of balances due from customers. Receivable detail at December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Accounts Receivable	\$ 66,627	\$ 59,319
Allowance for Doubtful Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Net Accounts Receivable	<u>\$ 65,627</u>	<u>\$ 58,319</u>

#### Inventory

Inventory is made up of spare parts to repair the existing system or meter pits used to add on additional users. Inventory is valued at the lesser of cost or market.

#### Capital Assets

Property, plant and equipment are stated at historical cost and/or cumulative cost of construction, which includes interest on construction in progress prior to the asset being put in service. Interest related to the water delivery system is capitalized during the period of initial construction until the system is put into service. The amount of interest capitalized in 2011 and 2010 was \$0 and \$17,959, respectively. The District's primary asset is a water delivery system consisting of water mains, pumps and booster stations, and storage tanks. Except for land, all assets greater than \$1,000 with a useful life of more than one year are depreciated using the straight-line method over their useful lives. Based on engineering estimates, the useful lives of the components for the water delivery system are as follows:

Water Mains	50 years
Pumps and Booster Stations	20 years
Storage Tank	50 years
Vehicles and Office Equipment	5 years

# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Operating Revenues and Expenses

Operating revenues and expenses for the District are those that result from providing services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

### Note 2. Changes in Capital Assets

Changes in Capital Assets for the years ended December 31 were as follows:

2011				
	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Non-Depreciable Assets				
Land	\$ 123,690	\$ -	\$ -	\$ 123,690
Depreciable Assets				
Buildings and leasehold improvements	108,258	-	-	108,258
Office equipment and vehicles	40,170	57,788	-	97,958
Water delivery system	6,765,647	3,953,096	-	10,718,743
Construction-in-progress	4,986,605	694,061	3,958,839	1,721,827
Totals	<u>\$ 11,900,680</u>	<u>\$ 4,704,945</u>	<u>\$ 7,917,678</u>	<u>\$ 12,646,786</u>
Accumulated Depreciation	<u>\$ 1,236,119</u>	<u>\$ 234,741</u>	<u>\$ -</u>	<u>\$ 1,470,860</u>

2010				
	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Non-Depreciable Assets				
Land	\$ 123,690	\$ -	\$ -	\$ 123,690
Depreciable Assets				
Buildings and leasehold improvements	108,258	-	-	108,258
Office equipment and vehicles	40,170	-	-	40,170
Water delivery system	6,762,236	3,411	-	6,765,647
Construction-in-progress	1,167,939	3,818,666	-	4,986,605
Totals	<u>\$ 8,078,603</u>	<u>\$ 3,822,077</u>	<u>\$ -</u>	<u>\$ 11,900,680</u>
Accumulated Depreciation	<u>\$ 1,080,551</u>	<u>\$ 155,568</u>	<u>\$ -</u>	<u>\$ 1,236,119</u>



# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Long-Term Debt

Long-term balances due at December 31 were as follows:

	<u>2011</u>	<u>2010</u>
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$9,615 including interest of 3%, final payment due October 2031. Secured by substantially all assets and service revenues.	\$ 576,856	\$ 597,620
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$3,098 including interest of 2.5%, final payment due April 2033. Secured by substantially all assets and service revenues.	205,590	212,729
Note payable to bank, interest at 7.75%, monthly payments of \$1,201 through June 2012 and a final payment of \$60,754 due July 2012. Secured by real estate.	65,119	74,824
Note payable, USDA Rural Development, interest at 4%, payable \$3,163 per month, due March 2050, secured by substantially all assets.	737,506	745,782
Note payable, USDA Rural Development, interest at 3.75%, payable \$3,438 per month, due July 2050, secured by substantially all assets.	840,345	757,272
Note payable, USDA Rural Development, interest at 3.25%, payable \$2,904 per month, due July 2050, secured by substantially all assets.	763,769	579,155
Bond payable, USDA Rural Development, interest at 3%, payable \$192 per month, due August 2050, secured by substantially all assets.	52,611	53,325
	\$ 3,241,796	\$ 3,020,707
Less: current maturities	(123,269)	(68,013)
Long-Term Portion	<u>\$ 3,118,527</u>	<u>\$ 2,952,694</u>

# FALL RIVER WATER USERS DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Long-Term Debt (continued)

The following is a summary of changes in long-term debt:

	Debt 12/31/2010	New Debt	Retired	Debt 12/31/2011	Due Within One Year
State of SD-Revolving Fund	\$ 810,349	\$ -	\$ 27,903	\$ 782,446	\$ 28,713
Bank Note	74,823	-	9,704	65,119	65,119
USDA Rural Development	<u>2,135,535</u>	<u>281,852</u>	<u>23,156</u>	<u>2,394,231</u>	<u>29,437</u>
Total Debt	<u>\$3,020,707</u>	<u>\$ 281,852</u>	<u>\$ 60,763</u>	<u>\$3,241,796</u>	<u>\$ 123,269</u>

Debt service is as follows:

	Interest	Principal	Total
2012	\$ 111,904	\$ 123,269	\$ 235,173
2013	107,144	60,071	167,215
2014	105,159	62,056	167,215
2015	103,106	64,109	167,215
2016	100,984	66,231	167,215
2017-2021	470,486	365,590	836,076
2022-2026	405,544	430,532	836,076
2027-2031	328,783	507,293	836,076
2032-2036	254,145	346,261	600,406
2037-2041	188,034	393,786	581,820
2042-2046	109,043	472,777	581,820
2047-2050	<u>56,216</u>	<u>349,821</u>	<u>406,037</u>
	<u>\$2,340,548</u>	<u>\$ 3,241,796</u>	<u>\$ 5,582,344</u>

### Note 4. Lease Commitments

The District leases office space with payment due bi-annually and various equipment with payments due on a monthly basis. Lease expense for the year ended December 31, 2011 and 2010 totaled \$6,711 and \$5,856, respectively. These amounts are included in the Statements of Revenue, Expenses, and Changes in Net Assets.

Future lease commitments are as follows:

2012	<u>\$ 1,554</u>
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## FALL RIVER WATER USERS DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 5. Retirement Plan

All permanent full-time employees participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employee are Class A Members, as defined by the plan, and are required by state statute to contribute 6.0%. State statute also requires the employer to contribute an amount equal to the employee's contribution. The statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for the general employees only. The District's share of the contributions to the SDRS for the years ended December 31, 2011, 2010, and 2009 was \$3,915, \$5,610, and \$3,077, respectively.

#### Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The District manages these risks by purchasing general liability, property, workers compensation, fidelity bond coverage, health and life coverage, and firm commercial coverage through private carriers. The District pays into the South Dakota Unemployment Compensation Fund to provide for unemployment insurance coverage.

The District believes such coverage is sufficient to preclude any significant uninsured losses to the District.

There have been no settlements exceeding insurance coverage in any of the past three years.

#### Note 7. Subsequent Events

District management has evaluated subsequent events through September 11, 2012, the date on which these financial statements were completed.

FALL RIVER WATER USERS DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
U.S. Department of Agriculture:		
Rural Development:		
Direct Federal Funding:		
Water and Waste Disposal Systems for Rural Communities - Loans and Grants	10.760	<u>\$ 786,282</u>
Total Funds		<u><u>\$ 786,282</u></u>

Note 1. All programs noted are major programs.

Note 2. The above Schedule of Federal Awards includes the federal grant and loan activity of the Fall River Water Users District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.